

ANNUAL REPORT OF INTERNAL AUDIT FOR 2009/10

1. INTRODUCTION

- 1.1 The Accounts and Audit Regulations require that the head of the Council's internal audit function produce an annual report to the Council's Audit Committee. The report must include an explicit internal audit opinion on the Council's systems of control and risk management and its governance arrangements. In developing the internal audit opinion, the head of internal audit must cite the relevant evidence used for opinion purposes. There is also a requirement to report an annual review of the effectiveness of the internal audit function to provide Members with a basis for determining the extent to which reliance can be placed on the internal audit opinion. At a minimum there is an expectation that an effective internal audit function will operate in compliance with the CIPFA Code of Practice for Internal Audit.

2. INTERNAL AUDIT OPINION

- 2.1 I have formed the opinion that the Council's overall internal control arrangements provide a **Sound Level of Assurance**. This represents the second highest of the five levels assurance available and indicates a satisfactory management of risk. While some elements of the control framework require attention, audit recommendations have been made to address those issues and responsible managers have agreed timetables for their implementation.

3. EVIDENCE SUPPORTING THE AUDIT OPINION

- 3.1 The Audit Opinion is based upon the assurance ratings arising from the audits completed in the year and on progress in implementing recommendations arising from those reports Table One summarises the assurance ratings for each of the audits undertaken. The table demonstrates that the majority of audits carry a "Good" or "Sound" assurance rating and that only one audit resulted in an "Unsatisfactory" rating. [No assurance rating was derived for the audit of Enterprise Risk Management – see below.] The overall assurance rating is "Sound", indicating a satisfactory management of risk although elements of the control framework require attention.

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Table One	
Summary of Assurance Ratings following Planned Audits 2009/10	
Audit	Assurance Level
Fundamental Financial Systems	
Treasury Management	Sound*
Main Accounting System	Marginal
Budgeting & Budgetary Control	Good*
Creditors	Sound*
Payroll	Unsatisfactory*
Cash and Banking	Good*
Local Taxes	Sound
Debtors	Sound*
Benefits	Sound*
Governance and Performance	
Customer Services	Marginal
Managing Pooled Budget	Good
Promoting Value for Money	Sound
Risk Management	N/A
Corporate ICT	
Information & Data Security Management (KPMG)	Marginal
CoCo Health Check – External Penetration (NTA)	Good
CoCo Health Check – Onsite Security (NTA)	Marginal
Customer Facing Services	
Community Safety	Sound
Fostering	Good
Improving Private Sector Housing	Good
Managing & Maintaining Public Space	Sound
Road Safety	Good
Traffic Management & Car Parking	Sound
Waste Management	Marginal
Youth Services	Sound
Overall Assurance Rating	Sound
Note * indicates that the assurance rating is provisional pending agreement of final report	

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- 3.2 The assurance ratings for the Fundamental Financial Systems reliant on the Agresso System were affected by the delays in fully implementing the System. The impact is most obvious in relation to the Payroll System where the assurance rating in 2008/09 was “Sound” [“Unsatisfactory” in 2009/10] but was also significant for the Treasury Management System [2008/9 “Good”; 2009/10 “Good”].
- 3.3 The three audits of Corporate ICT were delivered by external contractors, KPMG and NTA Monitor Ltd. The three linked audits focus on the Council’s progress in achieving full compliance with the GovConnect standards prescribed by the Government. The work carried out by NTA on External Penetration – with a “Good” assurance rating – addresses the most significant area of risk.
- 3.4 The audit of Risk Management sought to establish the level of “Risk Maturity” attained by the Council and concluded that the Council could best be described as “Risk Defined” This is the third of five maturity levels identified by CIPFA and represents sound progress in developing a robust risk management environment characterised by appropriate policies and procedures that are becoming increasingly embedded.

4. SUMMARY OF PERFORMANCE

- 4.1 Table 2 below provides an overview of the Consortium’s performance for the year using selected Key Lines of Enquiry. These KLOEs are used at all of the Welland sites because it is considered that they provide Members with a basis for effective scrutiny of Internal Audit and the opportunity (if requested) for benchmarking of delivery standards across the Consortium.

Table 2		
Key Lines of Enquiry 2009/10		
Key Line of Enquiry		Available Evidence
Performance of the Consortium		
X	Was Audit Plan delivered in full?	One planned audit was deferred at client request and three low priority audits rolled forward into future years to allow for additional days committed to audits of financial systems arising from issues with Agresso Implementation.
X	Are audits being delivered on time and to budget?	Only 60% of audits were delivered to budget. Monitoring of completion of audits against plan was compromised by the repeated rescheduling of work – first in response to the External Auditor’s request

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		that audits of Financial Systems should be brought forward so that he could place reliance on internal audit assurance, then following recognition of the extent to which slippage in implementing Agresso was likely to compromise any assurances provided. Consequent disruption to audits in progress contributed to overruns on a number of audit budgets.
✓	<p>Is staff productivity satisfactory? Time spent on productive work as a % of time available.</p> <p><i>[Productive work = planned audits and consultancy work.]</i></p>	<p>Productivity across the Consortium team is at 88% which exceeds the target of 87% for 2009/10. Individual productivity by the three more experienced auditors is at the expected levels ranging from 86% to 96%.</p> <p>Note that the Consortium does not engage any administrative support and therefore all non-audit tasks required to keep the Consortium running are performed by the auditors as part of their roles.</p>
✓	<p>Is the quality of work of a sufficiently high standard?</p>	<p>The Consortium's arrangements were subject to external review by the Audit Commission in February 2010 as part of their due diligence work relating to the change of internal auditors at Corby BC. The review confirmed that the Consortium's arrangements are compliant with CIPFA Standards. The Welland Board has consistently reported that the quality of the internal audit service provided by the Consortium is significantly better than the service received before September 2006 by in-house provision.</p>
✓	<p>Is the Consortium satisfying clients' needs & expectations?</p>	<p>The Consortium uses Customer Satisfaction Questionnaires where a score of 4 equates to "very good" and 3 to "good". In 2009/10 the average post audit rating received was 3.7.</p> <p>The Annual Customer Satisfaction Questionnaire results received produced positive comments on the helpfulness of Internal Audit. All scores were at or above the target of 3.</p>

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The Control Environment	
✓	<p>Do the completed audits provide assurance that the Council has made appropriate and effective arrangements to manage its key risks?</p> <p>The average assurance rating for planned audits in the year was "Sound". The impact of Agresso Implementation on assurance was largely addressed by the end of 2009/10 and it is anticipated that the new System will allow higher levels of assurance around financial transactions in 2010/11 and future years.</p>
Implementing Recommendations	
✓	<p>Are effective arrangements in place to ensure that managers respond to the agreed audit recommendations for which they are responsible in a timely manner?</p> <p>All managers agree the action for each recommendation prior to the issue of the final report. Significant effort is made by the auditors to produce SMART recommendations, including a target date for implementation. The Internal Audit database (Galileo) is used to track and follow up recommendations and the Chief Executive now receives regular reports on progress which are discussed at Strategic Board.</p> <p>The most recent report generated from Galileo shows 63 outstanding recommendations. There are 17 recommendations where full implementation has not been achieved by the agreed deadlines: Strategic Board has been advised of progress on all overdue recommendations.</p>